

## Message Text

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E.O. 11652: N/A

TAGS: UNDP, EAID

SUBJ: 19TH UNDP GOVERNING COUNCIL--UNITED NATIONS

REVOLVING FUND FOR NATURAL RESOURCES EXPLORATION

(ITEM 8)

REF: USUN 263

SUMMARY. ADMINISTRATOR'S REPORT ON HIS EXPERIENCE TO DATE IN NEGOTIATING PROSPECTIVE PROJECTS TO BE FINANCED BY UN REVOLVING FUND FOR NATIOAL RESOURCES EXPLORATION WAS DISCUSSED BY GOVERNING COUNCIL JANUARY 23. GENERAL SUPPORT EXPRESSED FOR HAVING ADMINISTRATOR CONTINUE PROJECT NEGOTIATIONS ON BASIS OF PROVISIONALLY AGREED OPERATIONAL PROCEDURES FOR THE FUND. GHANA SUPPORTED BY TOGO, INDIA AND CERTAIN OTHER LDC'S HOWEVER INSISTED NO PROJECT SHOULD RECEIVE FINAL APPROVAL UNTIL FINAL AGREEMENT ON PROCEDURES REACHED. GOVERNING COUNCIL WILL CONCLUDE DEBATE ON THIS ITEM JANUARY 29 AT WHICH TIME DRAFT DECISION REPORTED REFTEL WILL BE CONSIDERED. END SUMMARY.

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1. DP/85, PROGRESS REPORT OF THE ADMINISTRATOR ON NEGOTIATING

PROSPECTIVE PROJECTS UNDER TERMS OF OPERATIONAL PROCEDURES AND ADMINISTRATIVE ARRANGEMENTS PROVISIONALLY APPROVED FOR THE UN REVOLVING FUND FOR NATURAL RESOURCES EXPLORATION, INTRODUCED BY ACTING DIRECTOR EVERTS. EVERTS REPORTED WIDE-SPREAD INTEREST ON THE PART OF DEVELOPING COUNTRIES IN THE REVOLVING FUND: FORTY COUNTRIES HAD EXPRESSED INTEREST OF WHICH 12 HAD INDICATED POTENTIAL PROJECTS, IN MOST CASES MORE THAN ONE PER COUNTRY. EVERTS FELT THAT AS A RESULT OF EXPERIENCE GAINED IN THESE DISCUSSIONS COUNCIL WOULD BE IN A POSITION IN JUNE TO MAKE A FINAL DECISION ON OPERATIONAL PROCEDURES AND ADMINISTRATIVE ARRANGEMENTS FOR THE FUND.

2. IN THE ENSUING DISCUSSION JAPANESE DEL WAS THE MOVING FORCE SUPPORTING THE ADMINISTRATOR'S PROPOSAL. AS A MEASURE OF ITS SUPPORT FOR AND CONFIDENCE IN FUND, JAPANESE DEL ANNOUNCED ADDITIONAL CONTRIBUTION BY GOVERNMENT OF JAPAN TO REVOLVING FUND OF \$3.5 MILLION BRINGING TOTAL JAPANESE CONTRIBUTION TO DATE TO \$5 MILLION. JAPANESE DEL INDICATED IT WAS READY TO ACT NOW ON OPERATIONAL PROCEDURES AND ADMINISTRATIVE ARRANGEMENTS AS PROPOSED IN DP/53 WHICH CONSIDERED TO BE THE BEST POSSIBLE. THIS WOULD PERMIT COMMENCEMENT OF REVOLVING FUND OPERATIONS ON A FULL SCALE. HOWEVER, IF SUCH WAS THE WISH OF OTHER GOVERNMENTS IT WOULD RELUCTANTLY WAIT UNTIL JUNE FOR APPROVAL. JAPANESE, WHO ARE CO-SPONSORS OF DRAFT DECISION REPORTED REFTEL, HOPED ADMINISTRATOR WOULD BE AUTHORIZED TO CONTINUE PROJECT NEGOTIATIONS UNDER THE PROVISIONALLY APPROVED OPERATING PROCEDURES AND ADMINISTRATIVE ARRANGEMENTS. THEY WERE HAPPY TO HEAR A DIRECTOR FOR THE FUND WAS BEING APPOINTED. NOTE: US DEL UNDERSTANDS THAT A DIRECTOR OF RESEARCH AND DEVELOPMENT FOR MITSUBISHI - WITH NO PRIOR EXPERIENCE IN UN DEVELOPMENT SYSTEM - IS THE PROSPECTIVE DIRECTOR.

3. THE GHANAIAAN REP THOUGHT CEILING SHOULD BE SET ON REPLENISHMENT TERMS OF REVOLVING FUND. WHILE AGREEABLE TO AUTHORIZATION FOR THE ADMINISTRATOR TO CONTINUE NEGOTIATIONS WITH POTENTIAL RECIPIENT COUNTRIES, HE THOUGHT THIS AUTHORITY SHOULD NOT BE EXTENDED TO INCLUDE CONCLUSION OF AGREEMENTS PER SE, ESPECIALLY SINCE THE GOVERNING COUNCIL LACKED ANY LIMITED OFFICIAL USE

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MODEL AGREEMENT BY WHICH TO JUDGE THE NEGOTIATIONS (SEE REPORT ON WORKING GROUP DISCUSSIONS, BELOW). GHANIAN DEL WONDERED WHETHER MEETING OF MINING ENGINEERS FROM DEVELOPED COUNTRIES AND DEVELOPING COUNTRIES WOULD NOT HAVE FACILITATED MATTERS DESCRIBED PARA 5 DP/85.

4. US REP (EVANS) EXPRESSED SUPPORT FOR ADMINISTRATOR'S EVOLVING PLAN TO CONTINUE PURSUE CONTACTS WITH GOVERNMENTS

CONCERNING POSSIBLE ASSISTANCE FROM REVOLVING FUND AND JOINED IN CONSENSUS HAVE THIS MATTER DISCUSSED AGAIN AT 20TH SESSION. US DEL WAS HEARTENED BY RESPONSE OF MEMBER COUNTRIES TOWARD THE FUND, PARTICULARLY FROM DEVELOPING WORLD. DYNAMIC NATURE OF THE PROGRAM COULD BE MAINTAINED ONLY IF SUFFICIENT RESOURCES WERE FORTHCOMING. OUR GOVERNMENT HAD THIS QUESTION UNDER ACTIVE CONSIDERATION. IMPORTANCE OF STRENGTHENING GEOLOGICAL SURVEY ORGANIZATIONS OF RECIPIENT GOVERNMENTS, IN PARALLEL WITH SPECIFIC ACTIVITIES UNDERTAKEN BY FUND, WAS STRESSED. COUNCIL NEEDED TO ENSURE THAT BOUNDARY BETWEEN FUND-SUPPORTED ACTIVITIES AND THOSE FINANCED BY UNDP WERE CLEARLY UNDERSTOOD.

5. THE CANADIAN DELEGATION STATED IT WAS OPPOSED TO A NUMBER OF PROVISIONS IN DP/53. IT FELT THE PRINCIPLE OF REPAYMENT MUST NOT BE SUBJECT TO SPECIAL ARRANGEMENTS. PROJECT VIABILITY MUST BE THE BASIC CRITERION--SUCCESSFUL PROJECTS MUST BE ABLE TO SUPPORT THE UNPROFITABLE AS WELL AS THE PROFITABLE OPERATIONS. THEREFORE, NO CEILING SHOULD BE PLACED ON REPLENISHMENT PROVISIONS. CANADA WILL CONTINUE TO FOLLOW THE REVOLVING FUND DEVELOPMENTS CAREFULLY.

6. THE DANISH REP ON BEHALF NORDICS FULLY SUPPORTED THE WISH OF DEVELOPING COUNTRIES FOR ASSISTANCE WITH NATURAL RESOURCES DEVELOPMENT. PRINCIPAL CONCERN WAS FOR EFFICIENT UTILIZATION OF FUNDS AND THAT EXISTING MULTILATERAL FABRIC NOT BE DISTORTED. DANISH REP WAS NOT YET CONVINCED A BASIS FOR ACTIVITY HAD BEEN LAID WHICH COULD NOT HAVE BEEN CARRIED OUT BY UNDP. HOWEVER, EXPECTED THAT WOULD CHANGE.

7. CHINESE REP STATED PURPOSE OF PROVIDING AID SHOULD BE TO ASSIST COUNTRIES AND NOT INTERFERENCE WITH INTERNAL AFFAIRS THROUGH USURY OR PLUNDER. METHODS OF OPERATION OF REVOLVING LIMITED OFFICIAL USE

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FUND TERMED NOT TO BE IN ACCORD WITH UN CHARTER OR NEW INTERNATIONAL ECONOMIC ORDER, ACCORDINGLY DP/53 SHOULD BE REVISED FUNDAMENTALLY. CUBAN DEL EXPRESSED CONCERN WITH REIMBURSEMENT PROVISIONS SAYING IF PROJECT WAS SUCCESSFUL IT WOULD BE CAPITALISTS WHO WOULD BENEFIT CUBANS PARTICULARLY WANTED LOWER RATE OF REPAYMENT THAN PROVIDED FOR IN PARA 20, DP/53.

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8. THE CHILE REP SAID CHILE SUPPORTED BASIC DECISION TO ESTABLISH THE REVOLVING FUND BUT WAS CONCERNED ABOUT INFORMATION GOING TO THIRD COUNTRIES WITHOUT AUTHORIZATION OF COUNTRY CONCERNED. ALSO BOTHERED BY RESTRICTION OF REVOLVING FUND TO EXPLORATION SOLID MINERALS TO EXCLUSION OF OIL, THERMAL ENERGY AND SOLAR ENERGY. DUE ENERGY CRISIS THESE EXCLUDED NATURAL RESOURCES HAD TAKEN ON ADDED IMPORTANCE. ITALY ALSO EXPRESSED INTEREST IN THE FUND HAVING A GEOTHERMAL AND WATER MANDATE. TOGO SUPPORTIVE OF FUND BUT JOINED WITH GHANA CONCERNING THE DESIRABILITY OF HAVING A MODEL AGREEMENT FOR PROJECT NEGOTIATIONS.

9. PERUVIAN REP EXPRESSED CONCERN THAT THERE EXISTED TREND IN FUND TO CONCENTRATE ON EXPLORATION ACTIVITIES WHICH WERE SAFE, SECURE AND PROFITABLE WITH RESULT FUND WOULD NOT GET INTO UNDERGROUND, WATER OR LOW PROFITABILITY PROJECTS. IN VIEW PROMISING REACTIONS REPORTED, NETHERLANDS REP HOPED ADMINISTRATOR WOULD GO AHEAD WITH OPERATIONS. EXPRESSED OPINION REVOLVING FUND COULD BECOME MAJOR FORCE. "IT SHOULD NOW BE PERMITTED TO GROW AND BECOME TRULY REVOLVING." SUDAN, PHILIPPINES AND MALTA ALSO SPOKE SUPPORTIVELY OF

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FUND. MOST DEVELOPING COUNTRIES STRESSED SOVEREIGNTY WHICH COUNTRIES HAVE OVER THEIR NATURAL RESOURCES.

10. IN REPLY TO A QUERY MR. EVERTS SAID ANY MODIFICATIONS TO THE PROVISIONALLY APPROVED OPERATIONAL PROCEDURES AND ADMINISTRATIVE ARRANGEMENTS, WOULD BE APPLIED TO PAST AGREEMENTS. THUS THERE WOULD BE NO DANGER IN PROCEEDING WITH NEGOTIATIONS ON THE BASIS OF THESE PROCEDURES. EXPERIENCE GAINED WOULD PERMIT AND FACILITATE A FINAL DECISION ON OPERATIONAL PROCEDURES AND ADMINISTRATIVE ARRANGEMENTS AT JUNE SESSION.

11. INFORMAL WORKING GROUP WHICH WAS ESTABLISHED TO REVIEW AND MODIFY AS NECESSARY DRAFT DECISION CO-SPONSORED BY INDIA, JAPAN, NETHERLANDS, PHILIPPINES AND SUDAN MET MANY TIMES DURING PERIOD JAN 23-28. WORKING GROUP BECAME DEADLOCKED OVER LEC INSISTANCE THAT NO PROJECT AGREEMENT BE ENTERED INTO BY UNDP UNTIL A MODEL AGREEMENT FOR USE WITH ALL COUNTRIES HAD BEEN AGREED TO BY THE GOVERNING COUNCIL AND DEFINITIVE OPERATIONAL PROCEDURES APPROVED. GHANA AND TOGO, WHICH PLAYED LEADERSHIP ROLE IN FORWARDING LDC CONCERNS CONSIDERED STANDARD AGREEMENT NECESSARY TO PREVENT MANEUVERING BY COUNTRIES AND ALSO TO ENSURE RECIPIENT COUNTRIES ON EQUAL FOOTING VIS-A-VIS ONE ANOTHER. GHANA REP SAID SMALL COUNTRY LIKE GHANA COULD NOT POSSIBLY MAKE JUDGEMENTS ON INDIVIDUAL PROJECTS AS CONTEMPLATED IN DP/53. IN NEGOTIATIONS THESE COUNTRIES WOULD NOT KNOW IF THEY WERE STRIKING THE BEST DEAL, ANY "MOST FAVORED NATION" CLAUSE NOTWITHSTANDING. POSITION OF LDC'S GENERALLY SUPPORTED BY CANADA AND US. IT OBVIOUS REVOLVING FUND, WHICH BEING ESTABLISHED FOR BENEFIT LDC'S, WAS NOT GOING TO MOVE FORWARD IF LDC'S FELT THERE WAS NOT SUFFICIENT OPENESS. CANADIAN REP BOTHERED BY PROVISIONS DP/53 WHICH PERMIT INDIVIDUAL TAILORING TO SPECIFIC COUNTRIES. ALSO REMINDED MEMBERS HOW DIFFICULT IT WAS IN UNDP TO REVIEW DRAFT PROJECTS SUBMITTED TO THE GOVERNING COUNCIL. WHEN THINGS HAD REACHED THAT STAGE YOU HAD IN FACT A FAIT ACCOMPLI. PREFERRED TO GO SLOW AND ENSURE SOLID FRAMEWORK ESTABLISHED IN WHICH USERS HAD TRUST.

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12. WORKING GROUP SESSIONS WERE MARKED BY COMPLETE LACK OF CONFIDENCE OF LDC' IN ACTING DIRECTOR OF REVOLVING FUND AND THIS WAS A MAJOR CONTRIBUTING FACOTR TO REPEATED IMPASSES. THE UNWILLINGNESS OF EVERTS O SHOW LDC'S A MODEL OF THE AGREEMENTS TO BE NEGOTIATED WITH RECIPIENT COUNTRIES CONFIRMED THEIR SUSPICIONS THAT HE WISHED OVERLY FREE HAND TO NEGOTIATE PROJECTS. ONCE OPERATIONAL PROCEDURES GIVEN FINAL APPROVAL ALL CONTROL OVER THIS SITUATION WOULD BE

LOST, THUS THEIR INSISTENCE ON APPROVED OPERATIONAL PROCEDURES AND ADMINISTRATIVE ARRANGEMENTS BEFORE ANY PROJECTS AGREED. EVERTS' POSITION WAS THAT SINCE REVOLVING FUND IDEA NEW IN UN DEVELOPMENT SYSTEM, ADMINISTRATION COULD NOT DEVELOP MODEL AGREEMENT UNTIL IT HAD EXPERIENCED SEVERAL PROJECT NEGOTIATIONS. SINCE THIS HAD NOT YET HAPPENED (ONLY ONE NEGOTIATION HAS BEEN ENTERED INTO), ADMINISTRATION UNABLE TO COME UP WITH OTHER THAN A PURELY THEORETICAL IDEA OF WHAT A STANDARD AGREEMENT MIGHT LOOK LIKE. LOW POINT REACHED WHEN GHANAIN REP CONCLUDED EVERTS TERMED HIM "STUPID" IN MEETING DUE HIS INABILITY TO UNDERSTAND ADMINISTRATION POSITION.

13. IN END, WORKING GROUP ARRIVED AT COMPROMISE REFLECTED IN DRAFT DECISION REPORTED REFTEL WHEREBY APPROVAL OF REVOLVING FUND OPERATIONAL PROCEDURES AND APPROVAL OF REVOLVING FUND PROJECT PROPOSALS WOULD BE TAKEN UP AS SEPARATE AGENDA ITEMS DURING 20TH SESSION. NO PROJECTS WOULD BE APPROVED UNLESS AND UNTIL DEFINITIVE OPERATIONAL PROCEDURES AND ADMINISTRATIVE ARRANGEMENTS HAD BEEN APPROVED BY GOVERNING COUNCIL. THE DIFFICULT BARGAINING WHICH LED TO THIS COMPROMISE PROVIDED A GLIMPSE OF THE TOUGH SLOGGING WHICH LAY AHEAD BEFORE AGREEMENT ON OPERATIONAL PROCEDURES COULD BE REACHED. WITH THIS IN VIEW IT WAS GENERALLY AGREED WORKING PARTY ON QUESTION SHOULD ASSEMBLE IN GENEVA AND BEGIN WORK A FEW DAYS IN ADVANCE OF 20TH GOVERNING COUNCIL SESSION.

14. DISCUSSION THIS ITEM EXPECTED TO CONCLUDE JANUARY 29 AT WHICH TIME DRAFT DECISION WILL BE CONSIDERED BY GOVERNING COUNCIL.

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